

Issue Paper Number 01-019



BOARD OF EQUALIZATION
KEY AGENCY ISSUE

- ☐ Board Meeting
- ☐ Business Taxes Committee
- ☐ Customer Services and Administrative Efficiency Committee
- ☐ Legislative Committee
- ☒ Property Tax Committee
- ☐ Other

Assessment of Orbiting Artificial Satellites

I. Issue

How should the Board address the question of a review regarding the assessability of artificial orbiting satellites?

II. Staff Recommendation

Staff recommends that the matter be addressed as part of the update to AH 504, *Assessment of Personal Property and Fixtures*.

III. Other Alternative(s) Considered

1. The Board could address the assessment of satellites as a separate project and bring the matter through the Property Tax Committee process. (The project schedule is in Attachment 1.)
2. The Board could amend Property Tax Rule 205 to specifically include clarifying language with respect to satellites. (The project schedule is in Attachment 2.)

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IV. Background

On January 6, 2001, the Board's Legal Division received a request for an opinion from the Los Angeles County Counsel's office on the assessability of orbiting artificial satellites. The facts were stated as follows.

A Los Angeles company manufactures satellites in El Segundo, Los Angeles County, California. After the satellites have been manufactured, they are sent either to Cape Canaveral or French Guyana where they are launched into outer space. Immediately after they have been launched – upon the initial ignition of the first stage booster rocket – the manufacturer transfers the satellite's legal title to its subsidiary, a California corporation. The subsidiary's principal place of business and domicile is in Los Angeles County, California.

During the years in question, 1991 to 1994, the subsidiary owned approximately eight satellites in earth orbit. Telemetry, tracking, and command earth stations that track and control the satellites are located in various states, including California.

According to the taxpayer: "Once a satellite has been launched, it is guided to its FCC approved orbital assignment and remains fixed in this orbital position for the life of the satellite (usually measured by battery life). At the end of the satellite's life, [the owner] is allowed to move the satellite out of its assigned orbital assignment to a space graveyard, where space junk is stored. The satellite remains forever in orbit in this position. [The owner] never possesses the satellite in California. It receives title to the satellite after its launch. The satellite travels to its location in space, and remains there, never returning to earth."

The satellites were neither in Los Angeles County nor elsewhere in the state of California on any of the lien dates of the years in question, but were permanently located in space. None of the satellites were in Los Angeles County or the state of California at any time during the years in question.

There is no evidence demonstrating that, for any of the years in question, the satellites acquired a situs for tax purposes (i) in any country other than the United States; (ii) in any state other than California, or (iii) in any county other than Los Angeles County.

The Los Angeles County Assessor's office and the County Counsel discussed the assessability of the satellites in this situation, and concluded the issue presented a difficult legal question on which there was no clear legal precedent. In legal terms, it is a "matter of first impression." Accordingly, they sought the Board Legal Division's analysis of the applicable statutory and case law before proceeding on the matter.

After reviewing existing case law respecting movable property, the Legal Division expressed the opinion that while the satellites are in earth orbit, they nonetheless have a situs for tax purposes in Los Angeles County, California.

The Controller requested that the issue of assessability of orbiting earth satellites be brought before the Board's Property Tax Committee for discussion.

V. Staff Recommendation

A. Description of the Staff Recommendation

Staff recommends that the assessment of orbiting satellites be addressed as part of the update to AH 504, Assessment of Personal Property and Fixtures.

B. Pros of the Staff Recommendation

- Incorporating a discussion on the assessability of satellites in the AH 504 is an effective way to disseminate the information and promote uniformity
- Provides staff the opportunity to investigate and analyze circumstances involving orbiting satellites.
- Allows interested parties the time and opportunity to comment on the issue and provide alternative language for inclusion in the handbook update.

C. Cons of the Staff Recommendation

- Assessors' Handbooks are advisory in nature, and in contrast to a rule, any guidance provided would not be subject to enforcement by the Board.

D. Statutory or Regulatory Change

None.

E. Administrative Impact

None.

F. Fiscal Impact

1. Cost Impact

No additional cost.

2. Revenue Impact

None.

G. Taxpayer/Customer Impact

None.

H. Critical Time Frames

None.

VI. Alternative 1

A. Description of the Alternative

The Board could direct staff to address the assessment of satellites as a separate project and bring the matter through the Property Tax Committee process. (Project schedule is shown in Attachment 1.)

Staff would incorporate the Board's decision on satellite assessment into the update of Assessors' Handbook Section 504, *Assessment of Personal Property*.

B. Pros of the Alternative

- Provides staff opportunity to investigate and analyze circumstances involving satellites and present findings and recommendations to the Property Tax Committee at its meeting on October 24, 2001.
- The matter of assessment of satellites would be decided earlier than the update of the AH 504, which is anticipated to be scheduled for hearing by the Property Tax Committee in mid-2002.
- Incorporating a discussion on the assessability of satellites is an effective way to disseminate the information and promote uniformity.

C. Cons of the Alternative

- Assessors' Handbooks are advisory in nature, and in contrast to a rule, any guidance provided would not be subject to enforcement by the Board.

D. Statutory or Regulatory Change

None.

E. Administrative Impact

None.

F. Fiscal Impact

1. Cost Impact

No additional cost.

2. Revenue Impact

None.

G. Taxpayer/Customer Impact

Not applicable.

H. Critical Time Frames

Not applicable.

VII. Alternative 2

A. Description of the Alternative

The Board could direct staff to begin a project to amend Property Tax Rule 205 to include discussion of satellites. (Project schedule is shown in Attachment 2.)

B. Pros of the Alternative

- Provides interested parties the opportunity to review staff's proposed language for amendment of Rule 205 and provide alternative language.
- Specific discussion of satellites would clearly establish a uniform legal standard for assessment.

C. Cons of the Alternative

- Including a discussion on the assesability of satellites in the handbook will provide far more detailed advisory information than would a rule amendment.

D. Statutory or Regulatory Change

Action by the Board to amend Property Tax Rule 205 will result in future amendment to Title 18 of the California Code of Regulations, Subchapter 2.

E. Administrative Impact

None

F. Fiscal Impact

1. Cost Impact

No additional cost.

2. Revenue Impact

None.

G. Taxpayer/Customer Impact

None

H. Critical Time Frames

Not applicable.

Prepared by: Property Taxes Department; Policy, Planning and Standards Division; and Legal Division,
Property Taxes Section

Current as of: May 29, 2001

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Proposed Project Schedule for:

ALTERNATIVE 1: PROJECT FOR THE PROPERTY TAX COMMITTEE

Date	Description of Task
July 19, 2001	Staff to distribute a draft of their proposed guidance to interested parties
August 22, 2001	Deadline for interested parties to provide proposed changes, in the form of alternative text, to staff on draft guidance
September 6, 2001	Staff to distribute an agenda matrix, summarizing proposed changes, for the interested parties meeting
September 19, 2001	Staff to meet with interested parties to discuss proposed changes to the proposed guidance
September 25, 2001	Deadline for interested parties to provide final comments on pending issues or support for their positions
October 10, 2001	Staff to submit issue paper and other required documents for the Property Tax Committee meeting
October 24, 2001	Property Tax Committee to hear presentations on the unresolved issues regarding the assessment of satellites and adopt recommendations for the Board's consideration

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Project Schedule for:

ALTERNATIVE 2: REVISION OF PROPERTY TAX RULE 205

Date	Description of Task
July 19, 2001	Staff to distribute a draft of the proposed rule amendment to interested parties
September 4, 2001	Deadline for interested parties to provide proposed changes, in the form of alternative text, to staff on proposed language
October 19, 2001	Staff to distribute an agenda matrix, summarizing proposed changes, for the interested parties meeting
November 2, 2001	Staff to meet with interested parties to discuss proposed changes to the rule
November 19, 2001	Deadline for interested parties to provide final comments on pending issues or support for their positions
14 days prior to January 2002 PTC	Staff to submit issue paper and other required documents for the Property Tax Committee meeting
January 2002 PTC	Property Tax Committee to hear presentations on the unresolved issues regarding rule language and adopt recommendations for the Board's consideration